In This Building Block:

- Why the Plan is the best way to save
- Keep more money now
- Have more money later
- Make the most of your Plan

WHY YOU NEED TO SAVE

When it comes to planning for the future, you may not know where to start. And, for that matter, you may not know *why* you need to start. After all, won't your pension and Social Security take care of you when your working days are over? Or, if you're under 30, you may think it's too soon to put aside money for retirement. If you're over 55, you may think it's too late to save for a retirement that's just around the corner.

It doesn't matter how old you are or what your current financial situation is. What's important is taking the first step. The State of Illinois Deferred Compensation Plan makes it easy to start building a foundation for your retirement. All you need to do is enroll!

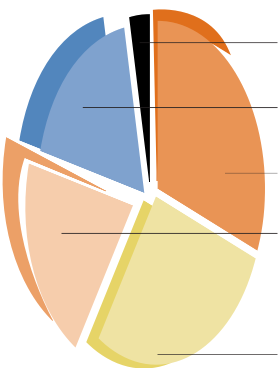
Social Security may not be enough

Why is it so important to get in the Plan and start saving? For one, you're going to need quite a bit of money to make it through your retirement years. According to retirement planning experts, you'll need between 60% and 80% of your preretirement income to maintain your standard of living when you retire.

While Social Security may provide some of this income, it probably won't make up as much as you'd like—or need. In fact, according to Social Security Administration figures for 2000, Social Security provided just 18% of retirement income (see chart to the left). Since no one knows for sure what this figure will be in the years ahead, **it'll be up to you** to provide the bulk of your retirement income.

So, what can you do to help ensure a financially sound future? Save. It's one of the smartest, most important steps you can take to

Sources of retirement income



Source: Social Security Administration, Income of the Aged Chartbook 2000, for persons age 65 with income of $37,962 and up in 1998.

reaching—and enjoying—a comfortable retirement. And it's easier than you might think. With your retirement plan, saving is simple, and it doesn't matter if you're 25 or 55. What matters is that you begin as soon as you can.

Why the Plan is a great way to save

The State of Illinois Deferred Compensation Plan provides tax advantages to help you save more. And, participating in the Plan will not affect the amount of your Social Security benefits or pension.

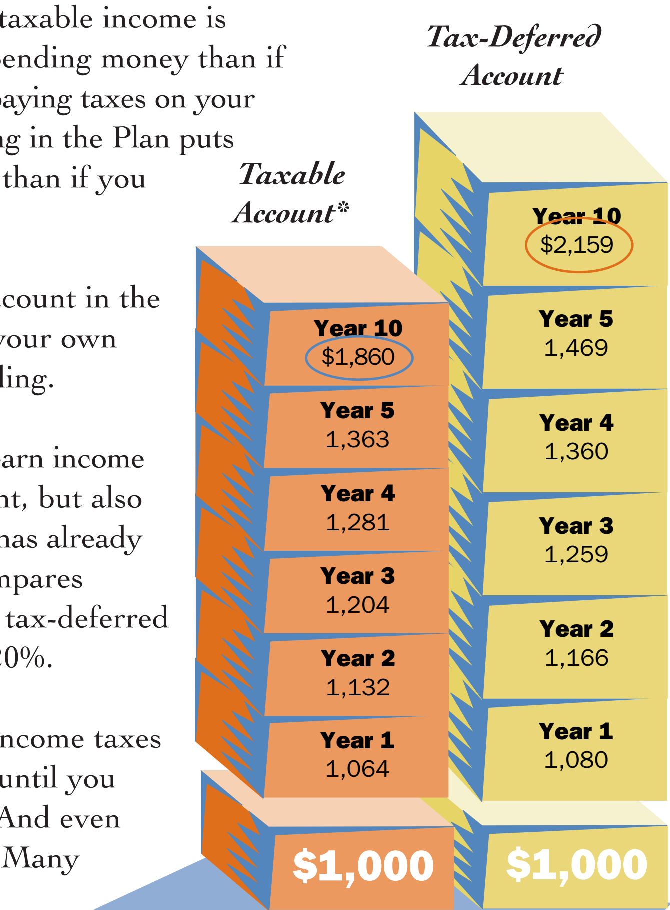
Keep more money now

Your contributions to the Plan are deducted directly from your paycheck *before* you pay taxes on your income. That means your current taxable income is reduced. Plus, you'll have more spending money than if you saved the same amount after paying taxes on your full income. That's how participating in the Plan puts more money in your pocket today than if you saved outside the Plan.

All other things being equal, an account in the Plan grows faster than saving on your own because of tax-deferred compounding.

Compounding happens when you earn income not just on your original investment, but also on the income that the investment has already earned. The graph to the right compares $1,000 growing at 8% yearly both tax-deferred and after paying income taxes of 20%.

"Tax deferral" means you pay no income taxes on the money your account earns until you receive a payment from the Plan. And even then, you pay *no* Illinois state tax. Many of us don't realize how big a bite taxes take over time. The story of Jane and Ed on the next page shows how tax-deferred compounding in the Illinois Deferred Compensation Plan can build your account faster than saving in an after-tax account.



**Assumes combined income taxes of 20%. This is for illustration only. It is not intended to represent the performance of any one of the Plan's investment options. Taxes are paid on the tax-deferred account upon withdrawal.*

More in your pocket today... and tomorrow

Jane and Ed each earn $25,000 a year. Each saves 6% of their pay, or $1,500. Jane saves through the Plan, while Ed saves through a regular account which is taxed. Each year Jane has $270 more in spending money than Ed because she saves through the Plan. Plus, because of the power of tax-deferred compounding, Jane's account grows faster — at the end of 30 years, her balance is $45,248 more than Ed's.

	Jane saves in the Plan	Ed saves on his own
Yearly pay	$25,000	$25,000
Contribution to the Plan	- 1,500	- 0
Taxable income	23,500	25,000
Social Security tax (FICA)	- 1,913	- 1,913
Federal income tax*	- 3,525	- 3,750
Illinois income tax**	- 705	- 750
Savings outside the Plan	- 0	- 1,500
Spendable income	**$17,357**	**$17,087**
30 years later	$186,295	$141,047

Note that Jane's spendable income is $270 more than Ed's

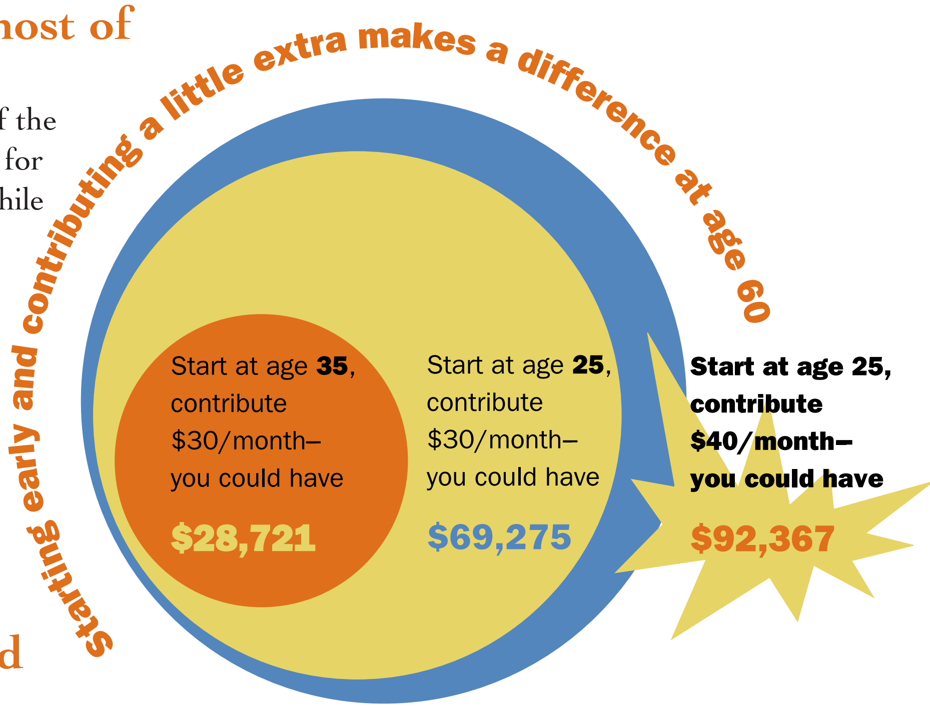
** Assumes a 15% tax rate.*
*** Assumes a 3% Illinois state tax rate.*

This chart is for illustrative purposes only and should not be considered representative of an investment in any of the Plan's investment options. It assumes an 8% rate of return with contributions made and compounded monthly for Jane, and 8% compounded monthly for Ed. Taxes are deducted on a yearly basis from the taxable account. When eligible for distribution, payments from your account are subject to federal income tax.

Building Blocks for Your Financial Future

Make the most of the Plan

The Plan is one of the best ways to save for your retirement while enjoying current tax benefits. To make the most of the Plan, it's wise to start saving early and increase your contributions from your pay when possible.



This example is for illustrative purposes only. It is not representative of an investment in any of your Plan's investment options. It assumes an 8% rate of return with contributions made and compounded monthly.

It's easy and convenient

Contribute whatever amount is comfortable for you. Your contributions are automatically deducted from your paycheck each pay period. This way you don't have to remember to budget for it. You never see the money, so you don't spend it.

Just ahead in Building Block #2

How much money do you need for retirement? How much money should you put aside to reach that goal? Building Block #2 will help you answer these questions and more.